

## Message Text

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INFO OCT-01 EUR-12 EA-06 NEA-09 ISO-00 AID-05 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03

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TO AMEMBASSY BONN

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INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

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SUBJECT: DEBT RELIEF AND THE AID-TO-INDIA CONSORTIUM

REF: STATE 212193

1. SUMMARY: THE PROBLEMS OF RESCHEDULING INDIA'S DEBT TO THE U.S., VIA THE AID-TO-INDIA CONSORTIUM AND PERHAPS EVEN A CREDITOR CLUB, HAVE INCREASED CONSIDERABLY THIS YEAR OWING TO HARDENED CONGRESSIONAL ATTITUDES TOWARD BOTH DEBT RELIEF IN GENERAL AND (FYI: INDIA IN PARTICULAR, END FYI) U.S. OBJECTIVE IS THEREFORE TO AVOID RESCHEDULING INDIA'S DEBTS TO THE U.S. THIS YEAR. U.S. OBJECTIVES IN PREPARING FOR THIS YEAR'S MEETINGS OF THE CONSORTIUM ARE AS FOLLOWS:

(A) TO DEMONSTRATE A U.S. COMMITMENT TO THE AID CONSORTIUM'S EFFORTS TO SPEED DEVELOPMENT IN INDIA;

(B) TO CONCENTRATE CONSORTIUM ATTENTION ON IMPROVING THE QUALITY OF AID TO INDIA;

(C) TO AVOID A SITUATION WHERE THE U.S. POSITION ON DEBT RELIEF DETRACTS FROM THE AMOUNT OF ASSISTANCE PROVIDED INDIA BY OTHER CREDITORS IN WHATEVER FORM THEY CHOOSE;

ONE WAY TO ACCOMPLISH THE ABOVE, WOULD BE FOR THE CONSORTIUM TO ADOPT A VOLUNTARY "FREE FOREIGN EXCHANGE" APPROACH, SIMILAR TO THAT INITIALLY RECOMMENDED BY THE BANK LAST YEAR (IBRD-IND74-1, FEB. 19, 1974). THIS WOULD LEAVE EACH CONSORTIUM MEMBER FREE TO USE ANY AND ALL METHODS OF PROVIDING FREE FOREIGN EXCHANGE (CASH, UNTIED AID, DEBT RELIEF, LOCAL COST FINANCING, FOOD AND FERTILIZER AID) DEPENDING ON ITS INDIVIDUAL CAPACITY AND POLICY PREFERENCE. REQUEST ACTION POSTS BRING U.S. VIEWS TO THE ATTENTION OF APPROPRIATE HOST GOVERNMENT OFFICIALS IN THE FOREIGN AND FINANCE MINISTRIES IN ORDER TO PROMOTE ACTIVE DIALOGUE PRIOR TO FORMAL CONSORTIUM MEETINGS ON THIS AND OTHER APPROACHES WHICH COULD BE EFFECTED WITHOUT U.S. PARTICIPATION IN DEBT RESCHEDULING.

2. AS POSTS AWARE (REFTEL), AT THE TIME WE AGREED TO RESCHEDULE LAST YEAR, THE U.S. ADVISED ALL CONCERNED (AND HAVE SINCE NOTIFIED CONGRESS) THAT WE WANTED ANY LIMITED OFFICIAL USE  
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FUTURE DEBT RESCHEDULING FOR INDIA NEGOTIATED IN A CREDITOR CLUB RATHER THAN THE CONSORTIUM. SINCE WE HAVE FOUND LITTLE SUPPORT FOR THE CREDITOR CLUB APPROACH AMONG OTHER CREDITORS, AND INDIA FEARS IT UNDERMINES THEIR CHANCES OF OBTAINING DEBT RELIEF FROM OTHER CONSORTIUM MEMBERS, THE UNITED STATES IS NOW ABANDONING EFFORTS TO ENCOURAGE THE IDEA OF A SEPARATE CREDITOR CLUB IN 1975.

3. DISCUSSIONS WITH HOST GOVERNMENTS SHOULD DRAW ON THE FOLLOWING:

(A) THE PROBLEMS OF RESCHEDULING INDIA'S DEBT TO THE U.S.

VIA THE AID-TO-INDIA CONSORTIUM, AND PERHAPS EVEN A CREDITOR CLUB, HAVE INCREASED CONSIDERABLY THIS YEAR OWING TO HARDENED CONGRESSIONAL ATTITUDES TOWARD BOTH DEBT RELIEF IN GENERAL AND (FYI: INDIA IN PARTICULAR. END FYI). THE U.S. THEREFORE WISHES TO AVOID RESCHEDULING INDIA'S DEBTS THIS YEAR. U.S. BUDGETARY PROCEDURES ARE SUCH THAT DEBT RELIEF CONSTITUTES NON-APPROPRIATED FINANCIAL ASSISTANCE RESULTING IN A SHORTFALL IN BUDGET RECEIPTS. WE HAVE ADVISED CONGRESS THAT INCREASED BILATERAL AID FLOWS FROM THE U.S. AND OTHER CREDITORS, TOGETHER WITH MULTILATERAL FLOWS, COULD MAKE IT POSSIBLE FOR INDIA TO SERVICE ITS DEBT TO THE U.S. FULLY IN 1975. TO PURSUE DEBT RELIEF FOR INDIA AT THE PRESENT TIME RISKS LEGISLATIVE RESTRICTIONS ON EXECUTIVE AUTHORITY TO UTILIZE THIS INSTRUMENT IN EMERGENCY CASES. THE U.S. RECOGNIZES, HOWEVER, THAT MANY DONOR COUNTRIES PREFER TO MAINTAIN DEBT RELIEF IN THE AID-CONSORTIUM CONTEXT, PARTICULARLY SINCE THEIR BUDGETARY ARRANGEMENTS MAY ALREADY BE IN PLACE FOR INDIAN FISCAL YEAR 1976 AND THAT IT MATTERS LITTLE WHETHER THEY PROVIDE NEW AID OR DEBT RELIEF. THUS WHILE THE U.S. GIVES HIGH PRIORITY TO AVOIDING RESCHEDULING INDIA'S DEBTS TO THE U.S., WE ALSO HOPE THIS U.S. POSITION DOES NOT DETRACT FROM THE AMOUNT OF AID WHICH OTHER COUNTRIES MAY PROVIDE, THROUGH WHATEVER COMBINATION OF NEW ASSISTANCE AND DEBT RELIEF THEY FIND MOST CONVENIENT.

(B) THE U.S. POSITION ON DEBT RELIEF DOES NOT AFFECT OUR SUPPORT FOR THE CONSORTIUM AND ITS EFFORTS TO SPEED LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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DEVELOPMENT IN INDIA. THE U.S. AND INDIA HAVE SIGNED AN AGREEMENT ON A SIGNIFICANT PL-480 PROGRAM INVOLVING 800,000 METRIC TONS OF WHEAT VALUED AT \$128 MILLION. THE WHEAT WILL BE DELIVERED DURING INDIAN FISCAL YEAR 1976 BEGINNING APRIL 1, 1975, AND THE TERMS ARE HIGHLY CONCESSIONAL: 40 YEARS INCLUDING 10 YEARS GRACE, 3 PERCENT INTEREST EXCEPT 2 PERCENT DURING THE GRACE PERIOD. IN ADDITION, THE U.S. BILATERAL AND MULTILATERAL TITLE II PROGRAM FOR INDIA TOTALED \$96 MILLION THIS YEAR.

(C) WITH THE EXCEPTION OF LAST YEAR, PREVIOUS CONSORTIUM DEBT RELIEF EXERCISES WERE DESIGNED TO LENGTHEN THE LENDING TERMS OF LOANS FROM THOSE DONORS WHOSE AID COMMITMENTS HAD BEEN EXTENDED ON RELATIVELY HARD TERMS. SINCE INDIA'S EXTERNAL DEBT PORTFOLIO IS NOW BASED LARGELY ON HIGHLY CONCESSIONAL LENDING, THIS PROCESS HAS BEEN LARGELY COMPLETED AND IS NO LONGER USED BY THE CONSORTIUM AS A BASIS FOR DEBT RELIEF. IN ANY CASE, DEBT RELIEF PROVIDES ONLY A SMALL FRACTION OF THE FINANCIAL RESOURCES PROVIDED TO INDIA BY THE MEMBERS OF THE AID CONSORTIUM.

(1974 DEBT RELIEF FROM CONSORTIUM MEMBERS TOTALED \$194 MILLION; NEW BILATERAL AND MULTILATERAL AID COMMITMENTS ARE LIKELY TO HAVE APPROXIMATED \$1.4 BILLION.) THE TENDENCY OF THE CONSORTIUM TO HIGHLIGHT THE DEBT RELIEF ISSUE IS CLEARLY OUT OF PROPORTION IN RELATION TO ITS ACTUAL CONTRIBUTION TO INDIA. WE FEAR THAT PREOCCUPATION WITH DEBT RELIEF BY OTHER CREDITORS MAY LEAD US AND OTHERS TO OVERLOOK INDIA'S REAL NEED WHICH IS TO PROVIDE FOR CRITICAL IMPORT NEEDS WHICH CANNOT BE MET BY TIED AID. THE U.S. BELIEVES DONOR COUNTRIES SHOULD HAVE MAXIMUM FLEXIBILITY TO HELP INDIA REALIZE THESE CRITICAL IMPORTS.

4. THUS WHILE THE U.S. CLEARLY WISHES TO AVOID RESCHEDULING INDIA'S DFBTS THIS YEAR, WE ARE PREPARED TO WORK WITH OTHERS TO FIND AN ACCEPTABLE WAY TO ENABLE THEM TO PROCEED WITH DEBT RESCHEDULING, IF THEY WISH, IN THE ABSENCE OF U.S. PARTICIPATION. ONE SUCH WAY FOCUSES ON THE CONCEPT OF FFX WHICH WAS RAISED BY THE BANK LAST YEAR. (FYI: IN 1974, THE WORLD BANK RECOMMENDED THAT THE CONSORTIUM PROVIDE A SIGNIFICANT PART OF AID (ABOUT ONE-FOURTH OF ALL AID -- OR ABOUT DOLLARS 335 MILLION OF LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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DOLLARS 1,400 MILLION) IN FFX IN THE FORM OF: (A, CASH, (B) COMPLETELY UNTIED AID, (C) DEBT RELIEF, OR (D) LOCAL COST FINANCING. MANY MEMBERS OF THE CONSORTIUM DID NOT ACCEPT THE BANK PROPOSAL BECAUSE SOME ARGUED THAT THE FOUR DIFFERENT TYPES OF FFX WERE ONLY ROUGH EQUIVALENTS AND INTER-COUNTRY COMPARISONS WOULD BE DIFFICULT IN A BURDEN SHARING FORMULA. THE U.S. PLAYED NO ROLE IN THE DELIBERATIONS, SINCE AT THE TIME WE WERE NOT IN A POSITION TO PROVIDE ANY ONE OF THE FOUR TYPES OF FFX AND THE PROPOSAL WAS DROPPED. END FYI.

5. ONE WAY A NEW FFX APPROACH MIGHT WORK IS

(1) TO COUNT FOOD OR FERTILIZER AID AS THE EQUIVALENT OF FFX (AS IT PROPERLY CAN BE SINCE AID CURRENTLY FINANCES ONLY A PORTION OF INDIA'S NEEDS OF FOOD AND FERTILIZER LEAVING \$800 TO \$1,000 MILLION OF ESSENTIAL FOOD AND FERTILIZER IMPORTS TO BE FINANCED BY FFX, AND (2) TO ELIMINATE ANY FIXED QUOTA OF FFX FOR DONORS. THE FOCUS WOULD BE ON THE VOLUNTARY PROVISION OF HIGH QUALITY AID. EACH MEMBER WOULD BE FREE TO USE ANY AND ALL METHODS (CASH, UNTYING, DEBT RELIEF, LOCAL COST FINANCING OR FOOD AND FERTILIZER AID) DEPENDING ON ITS INDIVIDUAL CAPACITY AND POLICY PREFERENCE.

6. IF SUCH A PROPOSAL WERE ACCEPTED, WE WOULD BE FREE TO APPORTION OUR INPUT TO A TOTAL ASSISTANCE PACKAGE, THUS AVOIDING CONGRESSIONAL PROBLEMS. UNDER PRESENT

PLANS, WE WOULD CONCENTRATE OUR AID ON PL-480 AND NOT RESCHEDULE ANY DEBT IN THE COMING YEAR.

7. REQUEST ACTION POSTS BRING US POSITION TO THE ATTENTION OF APPROPRIATE HOST GOVERNMENT OFFICIALS IN THE FOREIGN AND FINANCE MINISTRIES. IT SHOULD BE STRESSED THAT THE US IS WILLING TO CONSIDER OTHER APPROACHES WHICH COULD BE EFFECTED WITHOUT US PARTICIPATION IN DEBT RESCHEDULING.

8. AT THIS POINT IN TIME USG IS MOST INTERESTED IN A DIALOGUE ON THIS MATTER WITH INDIA, THE WORLD BANK, AND LIMITED OFFICIAL USE  
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WITH THE MAJOR CONSORTIUM CREDITORS (IE, GERMANY, JAPAN, THE UK, AND CANADA.) INFO POSTS SHOULD, HOWEVER, FEEL FREE TO DISCUSS US POSITION WITH HOST GOVERNMENT OFFICIALS IF ASKED.

9. FOR LONDON: THIS CABLE PARALLELS THE US POSITION AS EXPLAINED TO UK OFFICIALS IN LONDON MARCH 10 BY ROBERT RYAN, DIRECTOR OF THE OFFICE OF MONETARY AFFAIRS IN THE BUREAU OF ECONOMIC AND BUSINESS AFFAIRS. WOULD APPRECIATE OBTAINING LATEST UK THINKING ON SUBJECT. KISSINGER

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